

The Purchasing Post

Life Cycle Costing

When talking about the cost of an item, I always think of “white elephants”. The story originates out of Southeast Asia, where white elephants were (and still are) rare and sacred creatures. A king would give a white elephant as a gift but the catch was the cost to keep the white elephant. The recipient couldn’t get rid of the “gift” without offending the king and would go broke feeding and caring for the animal.

In acquiring items, Purchasing likes to look at the Life Cycle Cost of an item. The initial price may be low but it is the cost of supporting & maintaining an item (be it software or equipment) that truly determines the cost of an item. Some companies lowball or give away their product because the equipment is proprietary. Once their product is installed, the profit is made in the maintenance or supplies over the next several years.

Things to consider in determining the true cost of an item:

- Professional Services / Consulting = Does product have to be customized to meet our needs? Is vendor expertise needed to help determine how best to set up the product?
- Freight = Where is it origins? Involve specialized crating, such as dry ice? Does it have to go through customs?
- Installation = Special equipment required to unload? Prepare location, such as run lines for water, power, venting?
- Training = How complicated is the equipment to operate? Will vendor need to come back to train new personnel?
- Warranty/Maintenance = What type of support is needed to insure fast response, current upgrades, preventative measures, control parts costs?
- Supplies = What reagents, kits, filters, etc., are needed to utilize the machine?
- Cost to operate = Is it energy efficient? Will it power down if not in use?
- Trade-in value = How quickly will it become obsolete? When no longer needed, is there any re-sale value?
- Disposal = What will it cost to throw away? Security measures? Hazardous materials?

So the ultimate question is “Is this a good buy or a white elephant?”



Valentine's Day Purchases

\$126.03 is the average amount, per person, that Americans will spend for Valentine’s Day.

Consumers are expected to spend the most on jewelry, at a collective \$4.1 billion.

Consumers are expected to spend around \$1.7 billion on flowers.

Chocolate sales for the occasion will total over \$1 billion.

Americans are expected to spend nearly \$18 billion for Valentine’s Day.

141 million Valentine’s Day cards are exchanged worldwide.

8 billion candy hearts will be produced this year; that’s enough candy to stretch from Rome, Italy to Valentine, Arizona 20 times.

